



BUDGET MESSAGE

City Administrator's Budget Message

INTRODUCTION

Overview

In accordance with the City Charter, I am pleased to present a balanced recommended budget for fiscal year 2012 and a financial plan for fiscal year 2013. After several years of one-year budgets, we have once again returned to the traditional *two-year* financial plan. While the economy still has not fully recovered, the worst appears to be behind us and revenues have stabilized to a point where we believe we can make reasonable predictions for the next two fiscal years.



The financial impacts of the recent recession, the longest and deepest in over seventy years, have been tremendous. Between 2008 and 2010, sales tax revenues fell by an unprecedented 16%. We also saw an 11% decline during this period in transient occupancy tax revenues. This resulted in a combined loss of \$4.5 million in these two General Fund revenues during that period.

Over the last two years, we made a concerted effort to manage and respond to the economic downturn. We implemented measures to reduce the costs and size of the organization. These measures include reaching significant concession agreements with all of our labor unions and the elimination of seventy full-time positions, reducing the City's total workforce to the levels of 1999.

With the economy now on the upswing, local revenues are starting to show signs of recovery. Transient occupancy taxes are almost 9% higher than last year through the first eight months of the year. In addition, sales tax revenues grew just over 3% through December 31, 2010.

Because of cost cutting measures implemented over the last few years and the recent recovery in revenues, we began the budget process with an anticipated deficit of \$2.7 million. This is well below the \$8.9 million gap that we faced for fiscal year 2011. A major driver in creating our projected deficit in fiscal year 2012 is increases in pension costs, driven by investment losses experienced by the California Public Employee's Retirement System (CalPERS) during 2008 and 2009.



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To balance the budget, we are recommending several one-time measures to offset a portion of the projected shortfall. Additionally, continued wage and benefit concessions are needed in fiscal year 2012 from our general and supervisory employees to address much of the projected deficit. We believe we will reach agreement with these labor groups this year and have incorporated the estimated savings into the recommended budget. The recommended budget includes the elimination of an additional ten positions as we continue to streamline operations. All of these positions are vacant and the recommended budget does not include any layoffs.

New Funding to Enhance Restorative Policing Efforts

To address transient related issues and concerns in the Downtown Redevelopment Project and East Beach areas, staff is proposing a three-year pilot program to expand the City's Restorative Policing efforts.

The program will include enhanced support to the existing Restorative Policing Program through targeted on-street staffing and outreach workers under the direction of the Police Department's Tactical Patrol Program. This effort is modeled after a successful City of Santa Monica program.

The details of the program are being finalized but will be ready to implement at the beginning of the new fiscal year. As a placeholder, \$135,000 in Redevelopment Agency funding is included in the recommended budget for this program. The final dollar amount will be determined as we finalize the program. Any necessary adjustments to the financial support of the program will be included as a staff recommended change prior to adoption of the City budget in June.

Financial Highlights

The fiscal year 2012 recommended budget is comprised of all City funds, including the General Fund, special revenue funds, enterprise funds and internal service funds. Each fund accounts for distinct and uniquely funded operations.



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The recommended budget includes a combined operating budget of \$253.8 million and a combined capital budget totaling \$33.7 million. The table below provides a summary of the recommended budget by fund.

City of Santa Barbara Summary of Fiscal Year 2012 Recommended Budget by Fund				
	Operating Budget	Capital Program	Total	% of Total
General Fund	\$ 102,694,979	\$ 420,570	\$ 103,115,549	35.9%
Special Revenue Funds	33,304,973	11,301,270	44,606,243	15.5%
Enterprise Funds	98,376,710	20,195,000	118,571,710	41.2%
Internal Service Funds	19,419,585	1,815,000	21,234,585	7.4%
	<u>\$ 253,796,247</u>	<u>\$ 33,731,840</u>	<u>\$ 287,528,087</u>	<u>100.0%</u>

The General Fund, the primary and largest individual fund in the City, is comprised of six operating and three administrative

departments. The recommended General Fund operating budget totals \$102.7 million and includes \$420,570 for capital expenditures. In addition to the \$420,570 for capital, the General Fund is also contributing \$400,000 each year, over the next three years, towards the replacement of the City's legacy financial management system.

Special revenue funds account for restricted revenues and have a combined recommended operating budget of \$33.3 million and a combined capital budget of \$11.3 million. These funds include the Redevelopment Agency, which is a separate legal entity created to eliminate blight and provide low and moderate income housing in the community.

Enterprise funds make up one-third of the City budget. They consist of six distinct operations funded from user fees and charges. Enterprise operations are managed and operated much like private sector businesses. They require significant investment in plant, equipment, and infrastructure to deliver services. Their operating budgets total \$98.4 million, and include a recommended capital budget of \$20.2 million.

Internal service funds provide services exclusively to other City operations, including building maintenance, information systems, vehicle maintenance and replacement, and insurance. The recommended internal service funds budget includes an operating budget of approximately \$19.4 million and a \$1.8 million capital program budget.



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Economic Outlook

There are many indications that we may have seen the worst of the recession and the economy is slowly recovering. As a result, we believe we can begin to stabilize our organization and minimize additional cuts to public services.

One key driver in the strength and speed of the national recovery is how quickly the job picture improves. The national unemployment rate recently fell below 9% for the first time in over a year. Unfortunately, California's unemployment is still over 12%. This high unemployment rate suggests California will likely lag behind other states in its recovery and we will need to be conservative in our estimates.

The current civil unrest in North Africa and the Middle East may ultimately affect economic growth, depending upon how quickly these issues play out. Of special concern to Santa Barbara is the potential long-term impact upon oil prices, which could affect consumer and tourism spending, which plays a vital role in our local economy.

BALANCING THE GENERAL FUND

After facing an \$8.9 million deficit for fiscal year 2011, we began the budget process this year with a smaller deficit for fiscal year 2012 of approximately \$2.7 million. This deficit is due to two factors: (1) one-year wage and benefit concessions with our non-safety labor groups that will expire on June 30, 2011; and (2) significant increases in retirement costs.

In order to address the anticipated deficit, the recommended budget is balanced through a combination of measures, including a continuation of wage and benefit concessions from non-safety employees totaling \$1.84 million. These concessions are in addition to the \$1.1 million in savings we expect to realize through the three-

year agreements currently in place with our Police and Fire unions, and the elimination of ten positions throughout the organization through attrition.

Summary of Balancing Strategy GENERAL FUND Fiscal Year 2012

Projected Budget Gap	<u>\$ (2,694,123)</u>
Proposed Balancing Measures	
Assumed Wage and Benefit Concessions	1,844,938
Other One-Time Measures:	
Rebate from Self-Insurance Fund	567,620
Shift of Reserves from LUFT Program	131,565
Shift of Reserves from Utility Undergrounding Fund	<u>150,000</u>
Total Balancing Measures	<u>\$ 2,694,123</u>



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We will negotiate with the non-safety labor groups over the next three months to try to achieve the concessions needed for closing the projected fiscal year 2012 budget gap. Without concessions, the balancing strategy will require more cuts to staffing and services. This would be the third year in which non-safety employees have agreed to wage and benefit reductions in order to avoid additional cuts to staffing and services.

Other balancing measures include using available reserves from two programs – the Leaking Underground Fuel Tank (LUFT) Program and the Utility Undergrounding Program. The LUFT Program no longer needs the \$131,565 budgeted for removal and remediation of potential leaking fuel tanks, and the Utility Undergrounding Program was discontinued last year due to lack of neighborhood support for residential projects.

Additionally, we are proposing to use reserve monies from the City's Self-Insurance Fund to close the remaining budget gap. These reserve monies are a result of the excellent record in the Workers' Compensation Program over the last several years. The number of claims has dropped dramatically, lowering the amount of monies needed for current and potential future claims. Even with the use of these monies, the Self-Insurance Fund is fully funded to meet all City obligations.

Status of General Fund Reserves

In fiscal year 1995, the City adopted policies establishing minimum reserve requirements for all operating funds, including the General Fund and enterprise funds. The reserve policies establish three categories of reserves for the General Fund as defined below:

Disaster Reserve – A reserve equal to 15% of the operating budget, to be used to deal with fires, floods, earthquakes, and other natural disasters affecting the City.

Budgetary Reserve – A reserve equal to 10% of the operating budget, to be used for one-time costs and during periods of unexpected and significant declines in revenues and increases in costs allowing for orderly budget adjustments.

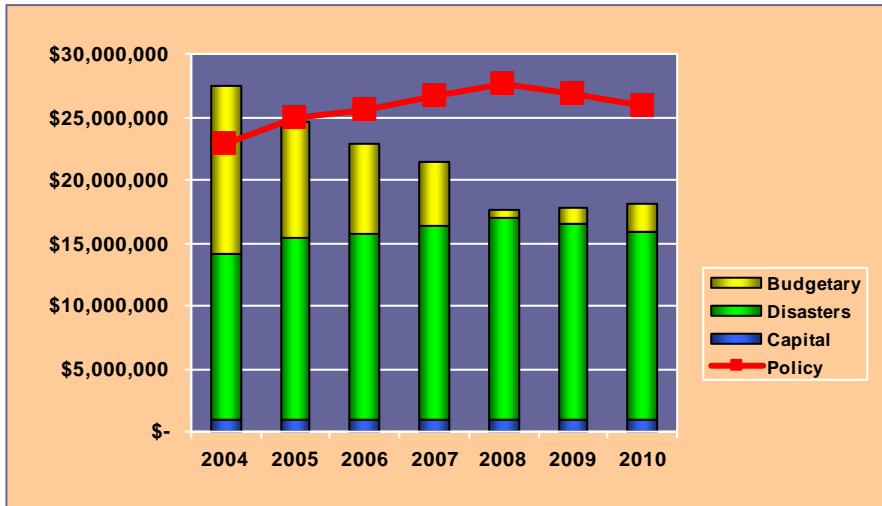
Capital Budget – A reserve equal to \$1,000,000 for capital cost overruns.



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Over the last several years, General Fund reserves have fallen below the amounts prescribed by the City's policy. Fortunately, during fiscal years 2009 and 2010 when General Fund revenues declined significantly, the City took corrective action to ensure no additional reserves were used.



The accompanying chart summarizes General Fund reserves for fiscal years 2004 through 2010. The red line represents the reserves prescribed by City policy, and the bars represent actual reserve balances at the end of the fiscal year. Since the amounts required for

disaster and budgetary reserves are a percentage of the operating budget, required reserves increased from fiscal years 2004 through 2008 in concert with the growth in the General Fund's operating budget. As the General Fund budget declined to address the revenue shortfalls, the reserve requirements also declined. Actual reserves increased slightly during this two-year period as well, helping to shrink the gap between required and actual reserves.

Although reserve levels are well below the City Council's established policy levels, the City is still in excellent financial condition and reserve levels are healthy compared to many comparable municipalities. However, it will be important over the next several years to avoid the further use of reserves and, as the finances of the General Fund improve, close the current gap in reserves.

FINANCIAL CHALLENGES FACING THE CITY

Reliance on Revenue Growth

Because the fiscal year 2012 recommended budget is relying on several one-time measures to close the estimated \$2.7 million budget gap, balancing in subsequent years will require continued cost containment until revenues recover and align with expenditures.



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It is difficult to project when revenues will align with expenditures because it will depend on the strength of the economic recovery and the speed in which General Fund tax revenues return to previous levels. However, based on our long-term projections, General Fund revenues will have to outperform the growth assumptions contained in the two-year financial plan to reduce the current structural imbalance.

The accompanying table summarizes the assumed growth rates used and revenue amounts for the General Fund's key tax revenues.

CITY OF SANTA BARBARA Summary of Key General Fund Revenue Estimates (and Growth Assumptions)						
	FY 2011 Projected	Est. Growth %	FY 2012 Recomm'd	Est. Growth %	FY 2013 Recomm'd	Est. Growth %
Sales Tax	\$ 17,401,747	2.4%	\$ 17,949,013	3.1%	\$ 18,663,915	4.0%
Property Tax	22,842,695	-0.9%	23,063,000	1.0%	23,396,000	1.4%
Transient Occupancy Tax	12,286,931	7.2%	12,865,000	4.7%	13,507,000	5.0%
Utility Users Tax	7,057,870	0.1%	7,144,500	1.2%	7,206,500	0.9%
	<u>\$ 59,589,243</u>		<u>\$ 61,021,513</u>		<u>\$ 62,773,415</u>	

With respect to **sales tax revenues**, the current fiscal year (2011) projections are based on just two quarters of data. For fiscal years 2012 and 2013, we have assumed moderate growth rates based on a general expectation that the economy will grow slowly. In past years, growth rates of 4% were typical.

Transient occupancy tax (TOT) revenues have performed well this year. Through February 2011, TOT receipts are up 8.8% in comparison to last year for the same period. We expect some moderation the rest of this year and in the next two years as occupancy rates and room rates stabilize. Nevertheless, we have assumed that revenues will be relatively strong in the next two years.

Predicting growth in **property tax revenues** is difficult in this economic environment. In normal economic conditions, property taxes are based on assessed values, which increase each year by the lesser of 2% or a statewide Consumer Price Index (CPI) factor. When real estate values decline dramatically as they have in the last two years, this formula becomes less relevant. When values decline, the County reassesses the properties to the lower market value. The revised assessed value will remain at that level until the real estate market recovers. Until then, these properties will not be subject to the annual increases and the related property tax revenues remain flat.



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Because of this reassessment process, and a statewide CPI for fiscal year 2012 of less than 1%, we have assumed very little growth in property tax revenues for the next two years. In contrast, up until fiscal year 2008, property tax revenues grew on average by over 8% per year, even during the recession in 2001 and 2002.

Impact of Rising Pension Costs

Although declining revenues were a key factor in creating the City's budget shortfall over the last three years, rising pension costs will be the greatest obstacle to balancing the General Fund budget over the next three years.

In fiscal year 2008, and particularly in fiscal year 2009, CalPERS sustained major and unprecedented investment losses. Normally, investment losses and gains are spread over 15 years by CalPERS to minimize the impacts on annual retirement contribution rates. However, because of their severity, CalPERS is spreading the majority of the losses over a three-year period, beginning in fiscal year 2012. The table summarizes the rates the City will be paying towards employee retirements. As shown in the table, rates are increasing substantially each year, particularly for the two safety plans – fire and police. Based on these rates, the General Fund's annual pension cost will increase from \$15 million this year to over \$20 million by fiscal year 2014.

Fiscal Year	Police	Fire	Misc.
2011	35.929%	35.672%	20.155%
2012	42.896%	41.543%	21.988%
2013	45.453%	43.620%	22.464%
2014	53.628%	52.974%	24.291%

Potential Impacts of the State's Budget Crisis

A major area of uncertainty is the impact of the State fiscal crisis on local government. The State is grappling with a \$25 billion budget gap through fiscal year 2012 and has been unable to develop a comprehensive solution to the problem. Due to last year's successful passage of Proposition 22, it does not appear that any of the likely solutions will have a major impact on the City's General Fund. However, it is clear that the State will make major cuts to many County health and social service programs, local schools, and Santa Barbara City College. These cuts could indirectly affect many of the City's programs and finances.

One of the Governor's proposals to help close the State's budget gap is to eliminate redevelopment agencies statewide. If successful, this proposal will significantly affect the City's ability to fund infrastructure improvements in the downtown area. The League of California Cities and the California Redevelopment Association (CRA) are vigorously opposing this proposal and have pledged to mount a strong legal challenge if the proposal is signed into



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law. The CRA has also put forth an alternative to the Governor's proposal that redirects a portion of property taxes currently collected by redevelopment agencies to local schools. This would reduce the State's legally mandated funding to schools and, thereby, help balance the State's budget. We will continue to monitor these proposals closely. The proposed budget does not take into account any changes to Redevelopment law.

Capital Program Funding Still Falls Short of Needs

The recently completed Six-Year Capital Improvement Program identified \$10.1 million in General Fund capital projects over the next two years. However, the recommended two-year financial plan includes just \$850,570 and \$980,570 (including \$400,000 in each year for the General Fund portion of the replacement of the City's Financial Management System) for the General Fund capital program in fiscal years 2012 and 2013, respectively. This is more than in the current fiscal year, in which only \$508,170 was allocated for General Fund capital projects. This amount does *not* include capital spending in the Enterprise Funds, such as the Airport, Water, Wastewater, Waterfront, and Downtown Parking funds, which totals \$20.2 million.

Key projects recommended in the General Fund for fiscal year 2012 include:

- Replacement of the City's Financial Management System
- Replacement of Park Playground Equipment at Chase Palm Park
- Annual Debt Service on the Police Records Management System

Among the capital projects that were not funded in the next two years are the following:

- Automated Materials Handling System at the Central Library
- Park Restroom Renovation Program
- Access Control System at the City Yard
- Cabrillo Ball Field Renovation
- Cabrillo Bathhouse Renovation
- Chase Palm Park Renovation
- Fire Training Facility Renovation
- Replacement of Fire Protection System at the Central Library
- Additional Maintenance Needs at Various City Facilities

Over the next several years, as revenues grow, it will be critical that the City restore capital funding back to appropriate levels to preserve important capital assets into the future.



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ENTERPRISE FUNDS

Beyond the services funded by the General Fund, the City provides *other* important services. These services are accounted for in separate Enterprise Funds, special revenue funds, and internal service funds. Only a few of these funds are affected by the economic recession.

The hardest hit is the City's municipal golf course, which experienced a significant decline in golf rounds in both fiscal years 2009 and 2010. Although the number of rounds has improved, golfers are choosing to play during off-peak days and times when cheaper fees are available. As a result, revenues are still lagging.

After two years of declines, passenger counts at the City's Municipal Airport are on the rise. For calendar year 2010, 755,734 passengers arrived and departed from the Santa Barbara Airport, an increase of 1.2% over 2009. This count compares to a 9.2% decrease in 2009 over the previous year of 2008. Seat capacity dropped 10% last year due to the loss of flights. The highest average passenger loads were aboard United Airlines flights to Denver (88.0%), Horizon Air flights to Seattle (83.5%), and Frontier Airlines flights to Denver (79.0%). In January 2011, passenger traffic was up 3.45% over the same month last year.

INTERNAL SERVICE FUNDS

Internal service funds include services provided by one department to other City departments. Examples include motor pool, building maintenance, information systems, and risk management. These operations receive funding through charges levied on operating departments of the City. To deal with the City's revenue shortfalls, internal service funds' budgets were also reduced over the past three years. No major additional cuts to these functions are proposed for fiscal year 2012.

RECENT ACCOMPLISHMENTS

Despite the serious economic conditions, it is important to recognize that the City as a whole provides excellent services to our community and we are making important progress in a variety of different areas. This progress includes improving City facilities, investing in the City's aging infrastructure, and improving community resources.



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Improvements to City Facilities

Cater Water Treatment Plant

The Cater Water Treatment Plant will begin construction on a new Advanced Water Treatment Project that will help us meet federal drinking water standards. In addition, once in place, the new treatment process will improve the taste of the water.

U.S. Highway 101 Improvements

The U.S. Highway 101 freeway improvements are on schedule for completion next year. The improvements will reduce traffic congestion, provide better ramp access and increase overall safety on Highway 101. Several project components are complete, including a roundabout at Coast Village Road and the partial construction of a new southbound lane. Construction is underway on the Milpas Street Bridge to build a third northbound lane. Funding for this project comes from the ½-cent sales tax approved by County voters.

Airline Terminal Improvements

The most significant event in fiscal year 2011 for the Airport will be the substantial completion of the new terminal facility that commenced construction in 2009. Santa Barbara's new \$32 million airline terminal will provide larger boarding gate areas, centralized passenger screening, a variety of concessions, improved ground transportation access, boarding bridges, and additional restrooms. The project is funded by grants from the Federal Aviation Agency (FAA), airline leases, and passenger facility charges. No local tax dollars have been used for the project.



The new two-story 67,000 square foot terminal is expected to be completed in June 2011 and achieve a Leadership in Energy and Environmental Design (LEED) silver rating for sustainable building practices. The Airline Terminal Project will also include construction of a new reconfigured short-term parking lot directly in front of the Terminal and a wider, longer loop road with a separate lane for public transportation vehicles. The historic portion of the existing Airline Terminal, built in 1942, will open in late 2011 following its relocation adjacent to the



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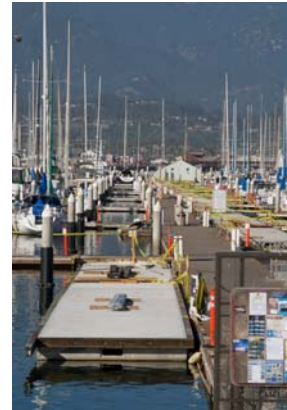
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new Terminal. The rehabilitated building will provide offices for Airport Patrol and the parking operation.

Marina One Replacement Project

Construction has begun to replace thirty-year old Marina One, Santa Barbara Harbor's largest marina. The majority of funding for the ten-phase project will be provided by a \$7.2 million loan from the California Department of Boating and Waterways (DBAW).

The first phase, consisting of replacing the main walkway, gangway, and utilities, was completed in fiscal year 2010. The second phase, to replace "O" and "P" docks, will be completed this fiscal year. In fiscal years 2012 and 2013, the "L," "M," and "N" docks will be replaced. Overall, the Marina One Replacement Project will take ten years to complete.



Mission Creek Improvements

An important project the City has been working on for decades is the Mission Creek Flood Control Project. Working closely with the County Flood Control District and the U.S. Army Corps of Engineers, this project involves widening over a mile of creek channel to reduce flooding and potential property damage during major storm events. After years of planning and design work, a portion of this project will begin construction this summer. We will continue to lobby aggressively for additional federal funds for construction.

On a smaller scale, the City has recently completed a project on Mission Creek at Oak Park. The project removed concrete barriers from the creek channel, stabilized the eroding banks, replaced non-native vegetation with native plants, and improved the trails with added interpretive information for visitors. The goals include improving the quality of the water that ultimately reaches the ocean and providing a safe passage for steelhead trout, an endangered species, by removing the barriers restricting their migration upstream.

Seismic Retrofits at Parking Structures

We currently have two important projects designed to seismically retrofit downtown parking structures. Work is already underway on the Ortega Parking Garage, which is closed during construction. When the work is completed in April 2011, construction will shift to the Lobero Parking Garage. We estimate that the repair work in both parking structures will be finished before summer. These projects are funded by the Redevelopment Agency.



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Carrillo Recreation Center

The major renovation of the historic Carrillo Recreation Center is now complete. Improvements included seismic safety and accessibility to meet Americans with Disabilities Act requirements; and improved program spaces including a new dance studio. The building has served the community for over 98 years and today over 100,000 people in the community use the facility for events, dances, and recreation programs. Lovingly restored to its original art deco style, the renovation has been well received in the local community and has led to increased demand for those facilities. The project was funded also by the Redevelopment Agency.



Fire Department Administrative Offices

Two years ago, seismic renovations and construction of a new Emergency Operations Center at Fire Station 1 were completed. The project is currently in the final phase of renovations to the nearby muffler shop on Chapala Street for the administrative offices. This project will result in \$200,000 of annual savings from temporary lease space. This project is also funded by the Redevelopment Agency.

Shoreline Park

A few years ago, a significant portion of the bluff along Shoreline Park disappeared with a major storm. Funded in part with a Santa Barbara County Coastal Resources Enhancement Fund (CREF) grant, the City will be replacing the fencing, rerouting walkways, installing new lights, landscaping and benches, and replacing the interpretative signage along the walkway. In this sensitive coastal zone, construction is expected to begin in the Spring of 2012.

West Beach Pedestrian Improvements

The West Beach Pedestrian Improvement Project has greatly enhanced beach access and the pedestrian linkage between Stearns Wharf and the Harbor. The project includes new plaza areas and public art on the sidewalks that create a promenade feel, enabling visitors and residents to more easily migrate to and from these two venues.



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Renovation of Children's Library

Used by thousands of local families each year, the Children's Library is sorely in need of more space, computers, seating, and shelving. The plans are to renovate the library basement and build a new children's area. The Junior League and the Friends of the Library are leading the charge to give this important community building a facelift. The Children's Library renovation is the first piece of a new Library Master Plan that will adapt the historic building to 21st century demands and growing numbers of library patrons.

KEY PRIORITIES AND CHALLENGES

Addressing Youth Gang Violence

One of the most serious issues facing neighborhoods in Santa Barbara and across the South Coast is youth gang violence. Law enforcement has estimated that there are hundreds of young people affiliated with or at high risk of joining a gang. The City of Santa Barbara has taken the lead to initiate several prevention and intervention strategies to reduce gang violence.

A key element in our strategy has been the creation of the South Coast Task Force on Youth Gangs to centralize coordination and collaboration between the myriad of governmental, educational, and non-profit agencies working on this problem. The City of Santa Barbara, the cities of Goleta and Carpinteria, and the County of Santa Barbara have each invested in this effort, which has resulted in the hiring of a full-time coordinator. The recommended budget continues funding for this important undertaking.

As a part of this strategy, we recently received a \$369,000 State grant to help our partners, the Community Action Commission, All-for-One, and the Santa Barbara County Education Office, to reach a common goal of ending youth violence.

Participation also continues to be strong in the City's afterschool programs and the Police Activities League. The combination of job training, mentorship, and afterschool and summer programs will help kids make healthy life choices and prevent them from joining gangs.

As a part of our enforcement efforts, we recently asked a Superior Court judge to implement a new enforcement tool, a gang injunction, to deal with specific gang members who are a threat to the safety of our community. This limited gang injunction, if approved in court, will target thirty known gang members to deter them from future criminal activity, prohibit them from associating with each other, and prohibit them from loitering in certain areas of the City.



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Managing Transient Population and Chronic Homelessness

For many years, the City has struggled with how to best manage a growing homeless population and stop illegal behaviors that occur among some homeless individuals, such as aggressive panhandling. City efforts have included funding a number of non-profit organizations to provide direct services to the homeless, participation in the County's Ten Year Plan to End Chronic Homelessness, and funding several projects designed to provide housing for the homeless. Two years ago, we received \$1.2 million in federal funding for homeless prevention and rapid re-housing. To date, this program prevented 124 very low-income households from slipping into homelessness and helped 208 homeless people obtain housing.

We also worked closely with the Chamber of Commerce, Downtown Organization, businesses, shelters, and non-profit community to develop a new ordinance that bans aggressive panhandling in the downtown core, lower Milpas Street, and the Waterfront area. Combined with this effort was the "Real Change, Not Spare Change" effort headed up by the Downtown Organization, designed to discourage residents and visitors from contributing directly to panhandlers.

Over the past several months, we have increased police enforcement in both the Downtown area and in the Milpas/East Beach area in response to complaints from local businesses about transient related criminal activity. These efforts have had a measureable impact on reducing crime in these important business areas of the City.

In an effort to improve our response to transient related issues within the Downtown Redevelopment Project Area, staff is proposing a three-year pilot program to enhance the City's Restorative Policing efforts. The program will include increased support to the existing Restorative Policing Program through targeted on-street staffing and outreach workers under the direction of the Police Department's Tactical Patrol Force (TPF) Program. This effort is modeled after the City of Santa Monica's successful program. We have included \$135,000 from the Redevelopment Agency in the recommended budget for this program. The ultimate funding amount will be determined as we finalize the program over the next two months.

Increase Library Hours During the Holidays

During the past year, both the Main and Eastside libraries were closed for two weeks during the holiday period, along with most other City business operations in order to generate budgetary savings. Due to concerns expressed by the community regarding this long closure period, especially the impact on children during their school break, we have supplemented the Library budget to eliminate the furlough closures over the holiday period.



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Solid Waste Management

Negotiation of Zone 1 Franchise Agreement

The City currently contracts with two haulers, MarBorg Industries and Allied Waste, for the refuse services in the City of Santa Barbara. The City is divided into two zones, each representing approximately one-half of the City, with State Street serving as the dividing line.

In June of 2013, the contract for Zone 1, handled currently by Allied Waste, will expire. As a result, we have already initiated a process to secure a contractor to continue the services starting July 1, 2013. The current value of the contract is approximately \$8 million per year and could be worth over \$80 million to the successful contractor over a ten-year franchise. It is by far the largest single contract of the City. This effort will require a significant amount of time and analysis to ensure residents receive the greatest amount of services at the lowest price.

Regional Efforts to Better Manage Solid Waste Disposal

One of the challenges facing the entire South Coast is the shrinking capacity at the County owned and operated Tajiguas Landfill. Each year, an average of 200,000 tons of solid waste generated by the cities of Santa Barbara, Buellton, Solvang and Goleta, and the unincorporated areas of the County is sent to the landfill. Based on these averages, Tajiguas Landfill will run out of permitted capacity by 2023.

Consequently, several years ago the City Council directed staff to implement programs that would reduce the amount of waste buried by diverting the materials to more inexpensive and environmentally preferred alternatives.

The City recently implemented a Foodscrap Recovery and Composting Program in which local restaurants can save money by diverting their foodscrap to a local facility that converts the waste into compost. Diverting the food scraps has both financial and environmental benefits. The compost is sold to the agricultural community as a nutrient-rich soil amendment. Its moisture-retaining properties help conserve water and replace chemical fertilizers that can make their way into the water supplies.

On a larger scale, the City and County of Santa Barbara, along with other agencies that take their waste to the Tajiguas Landfill, have collaborated to evaluate technological alternatives to disposing of waste at the landfill. We are analyzing facilities that would divert up to 95% of the waste and generate energy as a byproduct of the processing. We recently received proposals from several qualified vendors and are now analyzing these proposals. The next step will



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include additional public outreach to allow the community, environmental, and regulatory organizations to provide input into this important project.

CONCLUSION

The recommended two-year financial plan is a balanced approach to dealing with the financial challenges facing the City. Due to the steps taken in the last three years to reduce the size of the City organization, work with employees to reduce wage and benefit costs, and pay close attention to expense control, we are in a much stronger financial position than many other local governments in California. As the economy slowly recovers, these steps will provide a strong foundation to restore services and prepare for the future.

Despite the elimination of employees throughout the organization, I am proud of the efforts taken to streamline processes and procedures, minimize service reductions, and provide quality services to the community. The recommended financial plan continues these efforts, and includes modest service enhancements in critical priority areas such as responding to homeless problems, addressing youth gang violence and increasing library hours during the holidays.

A critical element of the proposed financial plan is the cooperation of the City's employee organizations. Their cooperation has resulted in avoiding employee layoffs, and most importantly, minimizing service cuts. With agreements in place with our public safety unions, the final piece of the puzzle is to reach agreements with our general, supervisory and treatment and patrol employees at an early date. We are working diligently to finalize these negotiations.

ACKNOWLEDGEMENTS

The preparation of the two-year financial plan has been a team approach, involving employees throughout our organization. It required countless hours of analysis, study, and preparation. As we have struggled over the past three years with the recession, I have been extremely impressed with the cooperative attitude demonstrated by the entire City management team to problem solve and find creative solutions to minimize disruption to services in the community. The final plan is a much better product because of this cooperative approach.

I want to especially recognize the efforts of the City's financial management team, headed by Finance Director Bob Samario. Of special note are the efforts of Budget Manager Michael



BUDGET MESSAGE

City Administrator's Budget Message

Pease, Treasury Manager Jill Taura, Budget Analyst Jonathan Abad, and Treasury Analyst Lynne Sparks, who all toiled on evenings and weekends to ensure the final document was timely and professionally prepared. They did a tremendous job.

I also want to recognize members of the City Administrator's Office who also worked long hours to help prepare the recommended financial plan. This includes Assistant City Administrators Marcelo Lopez and Paul Casey, Labor Relations Manager Kristy Schmidt, Assistant to the City Administrator Nina Johnson, and Administrative Analyst Lori Pedersen.

Respectfully submitted,

James L. Armstrong
City Administrator